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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

France Posts Significant Economic Gains

No other Western European country has engineered as sharp a turn in its economic direction over the course of the past decade as France. When the Socialist Party assumed office in 1981, its chief economic priorities were to stimulate economic growth and reduce unemployment. Reflation policies included public spending increases, job-creation programs and printing money. However, because efforts to reflate the French economy coincided with austerity programs in the rest of Europe, quite the opposite of the government's objectives actually occurred. Not only did the budget, trade and current account deficits soar to record levels, but the economy stagnated even further and the number of unemployed rose above the two million level for the first time ever as businesses and investors lost confidence in the government's economic management.

Indeed, investor confidence in the French economy eroded to such an extent that the Bank of France was forced to devalue the French franc on four separate occasions during the Socialist Party's first two years in office. By 1983, market pressures on the franc were so strong that the government even considered pulling the currency out of the exchange rate mechanism of the European Monetary System. Instead, it did a complete about-face and implemented the harshest belt-tightening program in France's recent history in an effort to restore the country's economic health.

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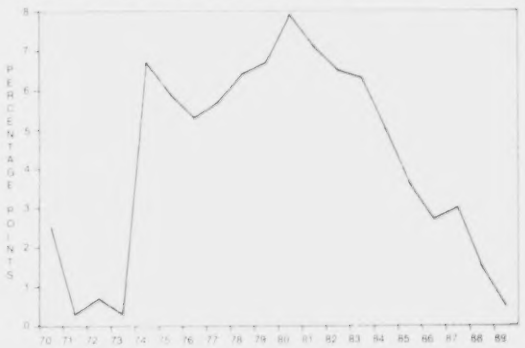
Austerity Pays Off

It worked. Six years of monetary, fiscal and wage restraint are now bearing fruit. Not only was last year's 3½ percent rate of real economic expansion the highest since 1976, but a surge in industrial investment was the engine of growth. What's more, the country experienced its first annual drop in unemployment since 1973, and, while a still lofty 9.4 percent, the unemployment rate stood below ten percent for the first time since 1984. Continued strong investment as France prepares for the single European Community (EC) market by 1992, as well as an anticipated increase in consumer spending resulting from the significant number of new jobs that are being created, should keep this year's economic growth rate in the three percent neighborhood.

INFLATION RATE DIFFERENTIAL BETWEEN FRANCE AND GERMANY
(ANNUAL PERCENT CHANGE IN CONSUMER PRICE INDICES)



Source: International Monetary Fund

Efforts to control public spending have also produced results. The budget deficit has declined from almost three percent of GDP in 1985 to a projected 1.4 percent of GDP in 1990, marking the fifth straight year that the shortfall on the government's financial balance has fallen relative to the size of the French economy.

Even more impressive has been France's success on the inflation front. Dropping from 13 percent-plus in 1980 to 3.6 percent last year (year-over-year), the government has engineered one of the steepest inflation declines in the industrial world over the past decade. As a result, the inflation rate differential between France and Germany, the most closely watched economic barometer in France, has narrowed to a mere one-half percentage point, the smallest gap since 1973. The differential between the two countries was a whopping eight percentage points in 1980 (see chart). While this year's official inflation rate target of 2.5 percent may be a bit ambitious, there is an excellent chance that the differential with Germany will be entirely eliminated by the end of the year, given the government's commitment to monetary, fiscal and wage restraint and its "strong currency" exchange rate policy of maintaining the franc's value versus the Deutschemark.

The Strong Franc Is A Major Factor

Not surprisingly, Finance Minister Pierre Beregovoy is adamantly opposed to a franc devaluation, despite the sharp deterioration in France's trade performance last year. Marking

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the one dark spot on the country's excellent economic record, the trade deficit widened to 44 billion French francs, significantly larger than the 33 billion-franc shortfall recorded in 1988. Mr. Beregovoy, however, maintains that the widening trade deficit is not the result of an uncompetitive franc, but instead, reflects the surge in capital goods imports necessary to re-equip French industry. He strongly believes that France's investment boom will eventually increase industrial capacity so that French industry can both respond to domestic demand, and thereby decrease imports, and boost French exports. For this to occur, however, the government must keep a tight rein on inflation in order to maintain the competitiveness of French products. A devaluation, he argues, would only worsen inflation without benefiting the trade account.

In addition to upsetting his anti-inflation strategy, Mr. Beregovoy also believes that devaluing the franc would complicate his long-term goal of reducing French interest rates, which are extremely high in real terms. For example, Euro-franc interest rates are around four percentage points higher than Euro-mark rates, despite the meager half-point inflation rate differential between France and Germany. This is because investors are still not used to thinking of France

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/24/90)	217,080	- 454	+ 10,414
New York City (1/31/90)	41,086	- 61	- 769
Commercial Paper (1/31/90)	530,853	+ 829	+ 62,343

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Commercial and Industrial Loan			
Nationwide (1/24/90)	319,218	- 513	+ 14,445
New York City (1/31/90)	58,809	+ 955	+ 3,420
Total Loans and Leases Gross Adju			
Nationwide (1/24/90)	999,884	- 4,278	+ 69,073
New York City (1/31/90)	181,456	+ 3,301	+ 3,738

Financial Markets

	Friday 2/9/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.99%	- .07	- .84
180-Day Bills†	8.08	- .06	- .93
Longest Bills†	8.01	- .10	- 1.19
Recent issues:			
8⅛s 1/31/92	8.23	- .10	
7⅞s 12/31/93	8.27	- .14	
8⅛s 12/15/00 (When Issued)	8.30	NA	
8⅛s 2/15/20 (When Issued)	8.35	NA	
Municipals:			
Bond Buyer—20 Bond Index* (2/8/90)	7.20%	- .04	- .18
Blue List Total ($ Million)	$1,114	+ $105	- $ 264
30-Day Visible Supply ($ Million)	$1,318	- $874	- $2,836
Total	$2,432	- $769	- $3,100
Corporates:			
Moody's Aa Composite (2/8/90)	9.45	+ .06	- .33
30-Day Visible Supply ($ Million)	$2,700	+ $175	- $1,002
Stocks:			
Dow-Jones Averages:			
Industrials	2,648.20	+ 45.50	+362.13
Transportation	1,088.19	+ 24.89	+ 28.20
Utilities	223.91	- .37	+ 37.68
65 Stocks	982.36	+ 15.40	+109.22
N.Y.S.E. Composite Index	184.39	+ 1.61	+ 20.38
N.Y.S.E. Avg. Daily Vol. for Week (000's)	155,146	- 14,354	- 35,942

*34% Taxable equivalent 10.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/9/90	Week Ago
Overnight	8.19%	8.13%
1 month	8.19	8.19
3 month	8.25	8.25
6 month	8.31	8.31
1 year	8.25	8.56

FOREIGN EXCHANGE SPOT RATES New York Opening (2/9/90)	Currency Per U.S. $	Week Ago
Belgium	34.97	35.15
Canada	1.1939	1.1883
France	5.6855	5.7150
Germany	1.6725	1.6760
Italy	1245.00	1249.00
Japan	145.15	145.36
Mexico	2689.00	2682.00
Netherlands	1.8830	1.8970
South Korea	689.10	687.40
Switzerland	1.4937	1.4985
Taiwan	26.13	26.04
U.K.*	1.6905	1.6815

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (2/9/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/
	+0.7%	-2.1%

as a low-inflation, strong-currency country and thus demand a high risk premium. By maintaining its anti-inflation efforts and refusing to devalue the franc, the government hopes to change this opinion. As investors, in turn, demand a smaller risk premium, French interest rates should eventually come down.

In the short term, however, France's exchange rate policy may mean higher domestic interest rates. Supporting Finance Minister Beregovoy's strong currency stance, Bank of France Governor Jacques de Larosiere has emphasized that French interest rate policy is entirely dependent upon movements of the franc and has promised to raise interest rates whenever necessary to maintain the currency's value versus the Deutschemark. Although often not warranted by domestic considerations, the Bank of France tightened monetary policy four times last year, lifting its key money market intervention rate to ten percent in December, the highest level since July 1985. Buoyant economic growth will probably continue to give the Bank of France leeway to match Bundesbank interest rate moves in order to convince investors that it will adhere to its strong franc policy. Investor confidence in the currency and the country, in turn, should help France meet the challenges of 1992.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/7/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	220.862	- 2.891	- 9.381
Loans to Depository Inst.	.880	+ .030	- .708
Float	1.047	+ .400	- .522
Total Reserve Bank Credit	262.958	- 2.270	+ 9.875
Treasury Deposits with Federal Reserve Banks	6.106	- 3.445	+ .027
Currency in Circulation	253.650	+ .418	+13.594
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	229.647	+ 1.574	+ 1.401
Member Bank Reserves:	**2/7/90**		
Total Reserves Held	59.363	- 1.676	- .779
Excess (Deficiency)	1.217	+ .326	- .326
Net Free Reserves	.385	- .233	- .680
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (1/29/90)	796.9	+ 3.3	+ 1.0
M2 (1/29/90)	3,233.9	+ 6.1	+ 5.1
M3 (1/29/90)	4,049.4	+ 3.2	+ 3.1
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/9/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.80%	7.70%	7.54%
* Federal Agencies	8.05	8.12	8.20
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.33	8.53
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.28	8.35	8.40

‡ Finance Company Paper–Prime

5- 14 days	8.15%
15- 29 days	8.13
30- 59 days	8.10
60- 89 days	8.00
90-179 days	7.90
180-239 days	7.50
240-270 days	7.50

‡* Bankers' Acceptances

Mar.	8.17%
Apr.	8.12
May	8.07
Jun.	8.02
Jul.	7.99
Aug.	7.93

‡ Industrial Paper–Prime

30- 89 days	8.25%
90-120 days	8.18

†Federal Funds Effective Rate 8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'89	$ 5,337	$ 5,281	$ 5,017
Gross National Product (1982 Dollars)*	4th Q'89	$ 4,168	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th Q'89	0.5	3.0	2.7
Change in Consumer Prices*	Dec '89	4.8%	4.8%	3.6%
Change in MH Cost of Living Index*	Dec '89	3.6%	4.8%	4.8%
Change in Producer Prices*	Jan '90n	21.6%	7.2% r	13.2% r
Civilian Employment (Thousands of Persons) †	Jan '90n	117,863	117,888	116,640
Unemployment as % of Civilian Labor Force †	Jan '90n	5.3%	5.3%	5.4%
Personal Income*	Dec '89n	$ 4,569	$ 4,548r	$ 4,206
Leading Indicators Composite Index (1967=100) †	Dec '89n	145.7	144.6r	145.1
Industrial Production Index (1977=100) †	Dec '89	142.8	142.3	140.4
Net Change in Consumer Installment Credit †	Dec '89n	$ 4.91	$ 4.60r	$ 5.09
U.S. Merchandise Trade Balance †	Nov '89	- $ 10.50	- $ 10.25	- $ 10.55
Plant and Equipment Expenditures*	1st Q'90	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Dec '89	1,235	1,342	1,577
New Construction Expenditures*	Dec '89n	$ 414.6	$ 417.3	$ 425.0
Total Business Inventories †	Nov '89	$ 796.8	$ 793.2r	$ 746.4r
Total Business Sales †	Nov '89	$ 523.6	$ 520.0r	$ 501.4r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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